Training Module:
Lockbox Oversight

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At the end of this training, you will be able to:

- Understand the main purpose and function of the Lockbox Agreement
- Understand each party's roles and responsibilities
- Identify basic issues and errors using the same types of information commonly provided by the Project Owner, Lockbox Agent and Bank

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What is the Lockbox Agreement?

- **The Lockbox Agreement is the instrument that defines how money is to be collected and distributed as well as the rights and responsibilities of the parties**
- **The Lockbox Agreement is the primary driver of "cash" through the Project**
- **The Lockbox Agreement is one of the "Key" documents to the transaction**
- **The Lockbox Agreement is typically an attachment or appendix to the Ground Lease / Use Agreement**
- **The Lockbox Agreement also covers budgets and the budget process, the use of capital repair and replacement funds and reinvestment account funds**

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Who are the key parties to the Lockbox Agreement?

- **While the Secretary signs the Lockbox Agreement, the three key parties are the Project Owner, the Lender and the Lockbox Agent**
- **The Lender agrees to the priorities placed on cash distributions – these priorities determine the amount of money available to make loan payments**
- **The Project Owner and the Secretary also agrees to the priorities placed on cash distributions – this determines how much cash the Project Owner will ultimately receive as well as how much money will be set aside for future renovations and improvements**
- **The Lockbox Agent is responsible for administering the Lockbox Agreement – that means that he is responsible for making sure the right amount of money goes to the right place. HOWEVER, the Lockbox Agreements are complicated and the Lockbox Agents tend to follow the direction of the Project Owners.**
- **AFCEE / Jones Lang LaSalle makes sure that the Lockbox Agents a) have the information they need to administer the Lockbox Agreement, and b) are in fact adhering to the Lockbox Agreement**

What are the key sections of the Lockbox?

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- **Definitions – understanding the legal definitions is critical**
- **Section 4 – Answers the following questions:**
  - **What accounts are to be created?**
  - **What is each account's purpose?**
  - **How are deposits and distributions to be managed?**
  - **How is the money to be distributed?**
  - **How is interest to be treated?**
  - **How do we treat ODs and other technical matters?**
- **Section 5 – Budgets, audits, lessee maintenance and access to books and records**
- **Section 6 – Defaults and remedies**
- **Section 7 – Replacement of the Lockbox Agent, Lockbox Agent reporting requirements**

We are going to focus on three of these, specifically:

- **Definitions**
- **Sections 4.2 – 4.13**
- **Section 5.02**

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Data Sources

- **Lockbox Agreement**
- **Executive Summary**
- **Bank Statements**
- **Lockbox Agent Reports**
- **Unit Completion Dates**
- **Sr. Loan Amortization Schedule**
- **Government Loan Amortization Schedule**
- **BAH Information (annual by rank and weighted average increases)**
- **Out-of-Pocket Information**
- **Demographics (targeted and actual)**

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Exercise: Identify the errors, Provide the correction, Provide the rationale

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- There are eight questions about Hootenhollar AFB's Lockbox Activity
- In the Lockbox Agreement, focus your reading on the definitions, Sections 4.02-4.13 and Section 5.02 of the Lockbox Agreement
- You may approach the Lockbox Agent, the Project Owner and the Lender with questions
- Ask quietly as to not give away your findings!
- Complete a correct waterfall for each period
- Select one/two to respond to questions on behalf of your group
- Learning is more important than getting the right answer!

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